



December 12, 2008

Cindy Chapman
State of California
Office of Emergency Services
3650 Schriever Avenue
Mather, CA 95655

Dear Cindy,

Re: Another Clean Fiscal Audit from PVPSA

Enclosed please find a copy of our 2007-08 annual financial audit conducted by Hutchinson and Bloodgood, Certified Public Accountants. PVPSA understands that fiscal and program accountability is key to our mission of delivering quality social services.

If you have any questions, please contact Silvia Diaz, Chief Financial Officer at 728-6300 ext 208.

Sincerely,

A handwritten signature in cursive script, reading "Jenny T. Sarmiento".

Jenny T. Sarmiento
Chief Executive Officer

A handwritten signature in cursive script, reading "Silvia M. Diaz".

Silvia M. Diaz
Chief Financial Officer

A handwritten signature in cursive script, reading "Linda Perez".

Linda Perez
Director of Safe Schools/Healthy Students

Close

**PAJARO VALLEY PREVENTION AND STUDENT
ASSISTANCE, INC.**

FINANCIAL REPORT

Year Ended June 30, 2008

DATE RECEIVED:



AUDIT REVIEW #(s) 04425

Assigned To: Smart

Date Reviewed: January 20, 2009

Reviewer's Initials: RS

Date Review(s) Completed: 1/20/09

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	15
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	16
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	17-18
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	19-20
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	21-22



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pajaro Valley Prevention and Student Assistance, Inc.
Watsonville, California

We have audited the accompanying statement of financial position of Pajaro Valley Prevention and Student Assistance, Inc. (a nonprofit corporation) as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the representation of Pajaro Valley Prevention and Student Assistance, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pajaro Valley Prevention and Student Assistance, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2008 on our consideration of Pajaro Valley Prevention and Student Assistance, Inc.'s internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Pajaro Valley Prevention and Student Assistance, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended June 30, 2008, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hutchinson and Bloodgood LLP

November 24, 2008

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 4)	\$ 282,717
Grants and accounts receivable	550,851
Prepaid expenses	11,288

Total current assets 844,856

PROPERTY AND EQUIPMENT, net (Note 5) 771,082

OTHER ASSETS

Prepaid loan fees, net of accumulated amortization	6,023
--	-------

\$ 1,621,961

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long-term debt (Note 8)	\$ 15,610
Accounts payable	252,320
Accrued salaries	88,741
Accrued payroll taxes	7,717
Accrued pension	6,028
Accrued paid time off (Note 9)	109,817
Deferred revenue	196,243

Total current liabilities 676,476

LONG-TERM DEBT, less current portion (Note 8) 701,772

COMMITMENTS (Note 6)

NET ASSETS

Unrestricted	243,713
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\$ 1,621,961

The notes to financial statements are an integral part of this statement.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

REVENUES

Grants and cost reimbursement	\$ 3,119,287
Donations	209
Clinic and counseling income	1,124,297
Other income	<u>25,115</u>

Total revenues	<u>4,268,908</u>
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EXPENSES

Program services	3,854,917
Management and general	<u>402,994</u>

Total expenses	<u>4,257,911</u>
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Increase in net assets	10,997
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Net assets, beginning	<u>232,716</u>
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Net assets, ending	<u><u>\$ 243,713</u></u>
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The notes to financial statements are an integral part of this statement.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

EXPENSES	Program Services	Management & General	Total
Advertising	\$ 11,652	\$ 767	\$ 12,419
Amortization	--	285	285
Audit	13,163	4,337	17,500
Conference and travel	25,174	74	25,248
Consultant and contract	583,838	11,015	594,853
Depreciation	--	23,982	23,982
Employee benefits	386,974	48,521	435,495
Field trips	1,101	--	1,101
Incentives	19,134	240	19,374
Instructional materials	25,456	354	25,810
Insurance	10,750	11,654	22,404
Interest	34,542	16,898	51,440
Repairs and maintenance	5,675	17,493	23,168
Memberships and subscriptions	--	523	523
Miscellaneous	5,030	6,629	11,659
Other supplies	55,804	12,336	68,140
Payroll processing fees	--	12,522	12,522
Payroll tax	211,164	13,304	224,468
Postage	2,025	1,372	3,397
Printing and duplication	33,208	4,372	37,580
Rent	28,421	46,377	74,798
Salaries	2,357,208	150,668	2,507,876
Small equipment	9,926	--	9,926
Taxes and licenses	--	708	708
Telephone	6,184	6,697	12,881
Training	8,362	1,736	10,098
Transportation	16,966	2,063	19,029
Utilities	3,160	8,067	11,227
	<u>\$ 3,854,917</u>	<u>\$ 402,994</u>	<u>\$ 4,257,911</u>

The notes to financial statements are an integral part of this statement.

**RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES**

Increase in net assets	\$ 10,997
Adjustments to reconcile increase in net assets to cash provided by operating activities:	
Depreciation and amortization	24,267
(Increase) decrease in:	
Grants and accounts receivable	42,214
Employee receivable	6,453
Prepaid expenses	(550)
Increase in:	
Accounts payable	37,789
Accrued salaries	6,028
Accrued payroll taxes	266
Accrued pension	565
Accrued paid time off	10,457
Deferred revenue	<u>144,574</u>
Net cash provided by operating activities	<u>\$ 283,060</u>

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

**NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

In 1984 the Pajaro Valley Unified School District established an Office for Drug and Alcohol Prevention and Student Assistance to deliver comprehensive drug prevention and intervention.

Succeeding in early intervention for drug and alcohol problems, the District began to confront the many other problem areas that our young people face. High risk in one problem area usually indicates high risk in many other areas. A full service student assistance program began. This program addresses the issues of low self-esteem, anger, children from chemically abusing homes, suicidal youth, children who have been abused, and youth with other personal problems.

The Pajaro Valley Prevention and Student Assistance, Inc. (the Organization) was incorporated in 1991 to provide the essential continuity and expanded services to the students and families in the Pajaro Valley. Student services, family counseling, technical assistance to school districts, and training that is related to risk prevention and health promotion are the organization's primary mission.

Accounting Policies

The Organization accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants.

Basis of Accounting

The Organization uses the accrual method of accounting. Revenues are recognized when earned and expenditures are recognized when they are incurred.

Administrative Support Costs

The Organization allocates administrative costs to grantors that allow overhead costs. The administrative costs applied to various grants were \$376,496 for the year ended June 30, 2008.

Programs

The Organization's accounts are organized into two categories: restricted programs and unrestricted programs.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Programs

1. Tobacco Use Prevention Education (TUPE), Pajaro Valley Unified School District (PVUSD): Categorical funding to deliver a full range of tobacco prevention programs and services for grades 4-8.
2. TUPE Competitive: Provide tobacco prevention programs and services for high school age students district wide.
3. Safe and Drug Free Schools: Entitlement funds from the State Department of Education to provide drug prevention and intervention services for all PVUSD students.
4. County Health Services Agency: Fee for service revenue to support drug treatment programs and treatment services for youth. A separate contract provides for prevention programs, parenting, curriculum, and training.
5. Male Involvement Program (MIP): Teen pregnancy prevention activities for young males. Funded by the California Department of Health Services in collaboration with County Health Services.
6. Community Challenged Grant (CCG): Teen Pregnancy Prevention Program working with middle and high school female students: Funded by the California Department of Health Services in collaboration with County Health Services, Planned Parenthood, Pajaro Valley Unified School District, and PSI.
7. New Direction: Reducing the Risk for Children of Incarcerated Parents: Federally funded program to work in collaboration with Santa Cruz County Probation Department. Youth and children receive individualized assessment and services. Parents and other identified family caretakers are assisted in developing a reintegration family plan; provided services and support to achieve the goals developed.
8. People Advocating Smoke Free Environments Outdoors (PASEO): Funded by California Department of Health Tobacco Control Section to promote local policies that reduce exposure to secondhand smoke and provide bilingual resources for tobacco cessation.
9. Communities Mobilizing Interventions on Tobacco (COMIT): Funded by California Department of Health to promote local policies that reduce exposure to secondhand smoke and provide bilingual resources for tobacco cessation.
10. Cal Grip: Funded by the State of California/Office of Emergency Services to provide gang prevention to school-age youth.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

**NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Programs (Continued)

11. Access to Visitation: Funded by the Center for Families, Children and the Courts and the Superior Court of Santa Cruz to provide supervised visitation to families and to promote healthy parent and child relationships.
12. Watsonville Juvenile Community Court (WJCC): Funded by Santa Cruz County Probation Department to provide counseling services for youth involved in the criminal justice system.
13. Monterey County EPSDT: Funded by the Monterey County Health Department to provide mental health counseling to clients.
14. Santa Cruz County EPSDT: Funded by the Santa Cruz County Mental Health Department to provide mental health counseling to clients.
15. MAS: Motivational Approach to Success provides assessment, evidence-based curriculum, and continuing care for youth on probation. The goal of the project is to reduce marijuana and other drug use and related juvenile justice involvement. The Organization is a subcontractor to Santa Cruz County Probation Department. The funding is provided by the Federal Center for Substance Abuse Treatment.
16. Safe Schools/Healthy Students Program: Funds from the U.S. Departments of Education, Health and Human Services, and Justice to support schools in creating safe learning environments that promote healthy childhood development and prevent youth violence and drug use in Grades K-12.

Unrestricted Programs

1. Kids' Korner (KK)/Student Assistance Program (SAP): PVUSD contributes unrestricted funds to support school-based counseling services in all schools.
2. ACCESS: Fee for service contract funded by the Santa Cruz County Mental Health Department. Fees are also collected from the clients and from private insurance.
3. Jail Education Services: Fee for service funded by Santa Cruz County to provide classes in substance abuse.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Grants and Accounts Receivable

Grants and accounts receivable are stated at face value since probable uncollectible amounts are immaterial.

Grant Revenue and Contributions

Grant revenue and contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Fixed Assets

Fixed assets acquired by the Organization are considered to be owned by the Organization. However, certain County, State, and Federal funding sources may maintain an equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets.

Depreciation

The Organization follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$2,000. Depreciation is computed on a straight-line basis over the useful lives of the assets as follows:

Buildings and improvements	30 years
Furniture and equipment	5-7 years
Transportation equipment	5 years

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

Preparing the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Revenue

Deferred revenue of \$196,243 at June 30, 2008 consists of unearned service fees and grant revenue.

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs for the year ended June 30, 2008 were \$12,419.

Note 2. NON-PROFIT STATUS

The Organization, a private non-profit corporation organized under the laws of the State of California, is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and from state franchise tax under Revenue and Taxation Code Section 23701(d), but is subject to taxes on unrelated business income when earned. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Note 3. CONCENTRATIONS

The Organization receives a significant amount of its grants funding from federal, state, and local governmental agencies. To a large extent, the continued efficient operation of the Organization depends on the current level of support from these agencies. A significant change in funding could impair the Organization's ability to operate the full scope of current programs.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

Note 4. UNINSURED CASH BALANCE

The Organization maintains cash balances at one bank. At June 30, 2008 these cash balances were insured by the Federal Deposit Insurance Corporation up to a limit of \$100,000. Amounts in excess of insured limits, based on the balances per the bank as of June 30, 2008, were \$206,604. Below is a reconciliation of uninsured bank balances to total cash per the financial statements at June 30, 2008.

Uninsured bank balances	\$ 206,604
Insured bank balances	100,000
Less outstanding checks	<u>(23,887)</u>
	<u>\$ 282,717</u>

Effective October 3, 2008 the Federal Deposit Insurance Corporation increased the insured cash balance limit on accounts held with banks to \$250,000.

Note 5. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008 consists of the following:

Land	\$ 244,754
Buildings and improvements	656,421
Furniture and equipment	18,464
Transportation equipment	<u>27,100</u>
	946,739
Less accumulated depreciation	<u>175,657</u>
	<u>\$ 771,082</u>

Note 6. COMMITMENTS

The Organization leases a copier under an operating lease that expired in October 2008. The lease is payable in monthly installments of \$63. The Organization leases office space in the local area. The lease expires in January 2009 and is payable in monthly installments of \$4,575. Total future minimum lease payments for the year ending June 30, 2009 are \$32,277.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

Note 7. LINE OF CREDIT

The Organization has a \$250,000 line of credit borrowing agreement with First National Bank of Central California. The interest rate is the bank's prime rate plus 1.0%. The effective rate was 6.0% at June 30, 2008. The revolving line of credit expired on October 29, 2008. There was no amount owed on this agreement at June 30, 2008.

Note 8. LONG- TERM DEBT

Long-term debt and the related current portion as of June 30, 2008 consist of the following:

First National Bank of Central California, Note #1	\$ 372,533
First National Bank of Central California, Note #2	344,849
	<hr/> 717,382
Less current portion	<hr/> 15,610
	<hr/> <hr/> \$ 701,772

Note #1 is payable in monthly installments of \$2,750, including interest at an initial rate of 6.75%. The interest rate on the principal balance will change on August 1, 2009, and every sixty months thereafter, to 3% above the Treasury Index in effect on each change date. The note is secured by the Organization's real property located at 335 East Lake Avenue in Watsonville, California. Final payment is due August 2014.

Note #2 is payable in monthly installments of \$2,534, including interest at an initial rate of 6.75%. The interest rate on the principal balance will change on August 1, 2009, and every sixty months thereafter, to 3% above the Treasury Index in effect on each change date. The note is secured by the Organization's real property located at 240 East Lake Avenue in Watsonville, California. Final payment is due August 2014.

Under the terms of both agreements, the Organization is required to maintain a ratio of liabilities to tangible net worth of not more than 4.5 to 1, a ratio of current assets to current liabilities not less than 1.25 to 1, an EBITDA coverage ratio not less than 1.10 to 1, and EBIT to interest expense not less than 1.25 to 1.

The Organization is in violation of the covenants with respect to liabilities to tangible net worth, current assets to current liabilities, and EBIT to interest expense. The bank has waived those requirements of the agreement as of June 30, 2008 and for the period ended with the date of these financial statements.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

Note 8. LONG- TERM DEBT (Continued)

Aggregate maturities or payments required on principal under long-term debt for each of the five succeeding years and thereafter ending June 30 are as follows:

2009	\$ 15,610
2010	16,696
2011	17,859
2012	19,102
2013	21,109
Thereafter	<u>627,006</u>
	<u>\$ 717,382</u>

Note 9. ACCRUED PAID TIME OFF

The Organization's personnel policies provide for paid time off (PTO) benefits, which are earned at various rates dependent on length of employment. The maximum accrual of PTO that can be carried from one calendar year to the next is 200 hours. Upon termination, employees are paid for any earned but unused PTO hours.

Note 10. PENSION PLAN

Employees are eligible to contribute to a 403(b) pension plan. The Organization will contribute 2% of annual salary for staff members' employed up to five years, vested at 20% for each year with the agency. Employees with five years or more will receive 5% of annual salary and are fully vested. For the year ended June 30, 2008, the Organization contributed \$73,261.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

<u>Federal Grantor/Title</u>	<u>Federal CFDA#</u>	<u>Grantor's #</u>	<u>Disbursements/ Expenditures</u>
U.S. DEPARTMENT OF JUSTICE			
Pass-through program from the Santa Cruz County Probation Department			
New Directions	16.548		\$ 155,307
U.S. DEPARTMENT OF EDUCATION			
Pass-through programs from Pajaro Valley Unified School District			
Drug Free Schools	84.186	69-0933298	98,119
Safe Schools/Healthy Students	84.184L	Q184L050273	2,030,750
Total U.S. Department of Education			<u>2,128,869</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through programs from the County of Santa Cruz			
Motivational Approach to Success (MAS)	93.243	03-007	11,656
Community Challenge Grant	93.558		33,712
Male Involvement Program (MIP)	93.778		11,896
H.S.A. Prevention	93.959		12,009
Total U.S. Department of Health and Human Services			<u>69,273</u>
Total expenditures of federal awards			<u>\$ 2,353,449</u>

See accompanying note to schedule of expenditures of federal awards.

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes grant activity of Pajaro Valley Prevention and Student Assistance, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors
Pajaro Valley Prevention and Student Assistance, Inc.
Watsonville, California

We have audited the financial statements of Pajaro Valley Prevention and Student Assistance, Inc. for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pajaro Valley Prevention and Student Assistance, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Pajaro Valley Prevention and Student Assistance, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Hutchinson and Bloodgood LLP

November 24, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Pajaro Valley Prevention and Student Assistance, Inc.
Watsonville, California

Compliance

We have audited the compliance of Pajaro Valley Prevention and Student Assistance, Inc. with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Pajaro Valley Prevention and Student Assistance, Inc.'s major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal programs is the responsibility of Pajaro Valley Prevention and Student Assistance, Inc.'s management. Our responsibility is to express an opinion on Pajaro Valley Prevention and Student Assistance, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pajaro Valley Prevention and Student Assistance, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pajaro Valley Prevention and Student Assistance, Inc.'s compliance with those requirements.

In our opinion, Pajaro Valley Prevention and Student Assistance, Inc. complied, in all material respects, with the requirements referred to above that are applicable to the major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Pajaro Valley Prevention and Student Assistance, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pajaro Valley Prevention and Student Assistance, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pajaro Valley Prevention and Student Assistance, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Hutchinson and Bloodgood LLP

November 24, 2008

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Pajaro Valley Prevention and Student Assistance, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the OMB Circular A-133.
3. No instances of noncompliance material to the financial statements of Pajaro Valley Prevention and Student Assistance, Inc. were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Pajaro Valley Prevention and Student Assistance, Inc. expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C of this schedule.
7. The program tested as a major program was Safe Schools/Healthy Students, CFDA number 84.184L.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pajaro Valley Prevention and Student Assistance, Inc. qualified as a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS

None

PAJARO VALLEY PREVENTION AND STUDENT ASSISTANCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

D. PRIOR YEAR AUDIT FINDINGS

None